

CAHS

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Testimony before the Finance, Revenue & Bonding Committee
Re: H.B. 6498 – An Act Concerning the Sales and Use Tax Rate
S.B. 930 – An Act Concerning the Cigarette Tax, the Tobacco Products Tax,
and the Alcohol Beverages Tax
Submitted by Maggie Adair, Policy Director
Connecticut Association for Human Services
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The Connecticut Association for Human Services (CAHS) is submitting testimony regarding **H.B. 6498 – An Act Concerning the Sales and Use Tax Rate** and **S.B. 930 – An Act Concerning the Cigarette Tax, the Tobacco Products Tax, and the Alcohol Beverages Tax**.

CAHS is a statewide nonprofit organization that works to end poverty and to engage, equip, and empower all families in Connecticut to build a secure future. We promote policies that support families as they move along an economic continuum, from meeting basic needs, learning how to manage a family budget, avoiding predatory lending, building income and assets, obtaining an education, and landing a good-paying job.

CAHS is a member of **Better Choices for Connecticut**, a broad-based community coalition working to help Connecticut make smarter choices on ways to improve the state's imbalanced revenue system. State revenues are the collective investments that support our communities and maintain the high quality of life we value. However, Connecticut's imbalanced revenue system, combined with the economic crisis, is jeopardizing our public services, institutions, and infrastructure. **Connecticut can make sensible, pragmatic changes to revenue policy that creates a revenue stream that is stable, sustainable, transparent, and fair.**

Better Choices for Connecticut has released a White Paper, outlining a multi-part-revenue proposal that will take a large step toward balancing the state's budget deficit. The components of the proposal include:

- Increase income taxes on wealthier households;
- Reform the corporate business tax rules, including adopting combined reporting, and re-applying the corporation business tax to S-Corporations with graduated rates to protect small businesses;
- Increase the sales and use tax rate from 6 to 7 percent;
- Create a State Earned Income Tax Credit to alleviate the regressivity of an increased sale tax rate;
- Scale back the film tax credit;
- Increase cigarette and alcohol taxes.

I am commenting on the two bills before the Committee today – increasing the sale tax rate and increasing cigarette, tobacco products, and alcohol tax rates. We hope the Committee will raise a bill at a future public hearing regarding the state's income tax structure. Connecticut's relatively flat income tax is

fundamentally unfair. We also hope the Committee will consider long-term changes to the way we tax corporations so that they pay their fair share. One bill before you today (S.B. 934) to impose a three-year, 30 percent surcharge on businesses subject to the corporation business tax is a short-term fix, not fundamental reform.

Better Choices for Connecticut reached consensus on including an increase in the sales tax rate and the cigarette and alcohol tax rate after lengthy discussion. Increasing these taxes is regressive tax policy because it impacts lower-income households the most. However, given the deep economic downturn and Connecticut's daunting budget deficit, the dollars generated from these tax increases are needed to close the gap.

Better Choices for Connecticut insists that adoption of a refundable State Earned Income Tax Credit for low-wage working families must be paired with a sales and use tax increase. Lower-income families pay a higher share of their income in sales taxes than higher income households. A State EITC will offset the negative impact of a sales tax expansion. **We should not enact revenue changes that exacerbate the situation of struggling low-wage working families in Connecticut.**

President Reagan called the federal EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." Connecticut can and should create a State EITC and build on the benefits of this highly effective policy. Twenty-four states have already enacted State EITCs – it's time for Connecticut to do the same and support working families.

In these unprecedented financial times, we have choices. We can make a short-sighted poor choice and attempt to cut our way out of this multi-billion budget gap. This would require slashing vital programs and services that are the lifeline for our most vulnerable people – our children, struggling working families, the disabled, and the elderly. It would require abandoning our investment in our schools, municipalities, transit, infrastructure, and public safety.

During a recession, demand for public services dramatically escalates. Deep budget cuts would deny services when they are needed most. Economists agree that crippling government will harm the economy when it is most at risk.

We can make a better and smarter choice. Connecticut has the capacity to protect our most vulnerable citizens, our schools, our infrastructure, and our public safety. Connecticut is the wealthiest state in the country, but it is also among the most unequal.

We can choose to invest in our people and our communities by making prudent policy changes to ensure long-term fiscal stability to our state's revenue system. Revenue enhancements can be carefully focused on the people and businesses with the greatest ability to pay, while maintaining or lowering tax rates for people who are struggling the most economically, and for small businesses that are key to job creation.

Thank you for providing CAHS the opportunity to submit testimony to the Committee